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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2018/2019

**BBF2124 – FINANCIAL MANAGEMENT II**  
( All sections / Groups )

18<sup>th</sup> OCTOBER 2018  
9:00 a.m – 11:00 a.m  
(2 Hours)

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### INSTRUCTIONS TO STUDENT

1. This Question paper consists of 2 pages with 4 Questions only.
2. Attempt **ALL** questions. Distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

Industronics Berhad is evaluating two different operating structures which are described below. The firm has annual interest expense of \$250, common shares outstanding of 1,000, and a tax rate of 40 percent.

Operating Structure	Fixed Cost	Price/Unit	Variable Cost / Unit
#1	\$500	\$1	\$0.75
#2	\$1,200	\$1	\$0.70

- a) For each operating structure, calculate
- EBIT and EPS at 10,000, 20,000, and 30,000 units of sales. (12 marks)
  - the degree of operating leverage (DOL) and degree of total leverage (DTL) using 20,000 units as a base sales level. (4 marks)
  - the operating breakeven point in units. (2 marks)
- b) Which operating structure has greater operating leverage and business risk? (2 marks)
- c) If Industronics Berhad projected sales to be at 20,000 units, which operating structure is recommended? (2 marks)
- d) Distinguish between the term "business risk" and "financial risk". (3 marks)
- (Total: 25 marks)**

**QUESTION 2**

Globetronics Medical Technology Sdn. Bhd. has a 12.5% cost of capital must select the optimal group of projects from those shown in the following table, given limited budget of RM1,000,000.00.

Project	Initial Investment - RM	Net Present Value (NPV) -RM
A	300 000	75 000
B	200 000	12 000
C	100 000	35 000
D	900 000	90 000
E	500 000	50 000
F	100 000	50 000
G	800 000	150 000

Continued...

- a) Calculate the present value of future cash inflows associated with each project.  
(7 marks)
- b) Which optimal group of projects should be funded? High costs will be incurred for any unused funds by the company.  
(3 marks)
- c) If Internal Rate of Return (IRR) for each project is given, kindly discuss your approach in selecting the group of project.  
(5 marks)
- d) Would your answer discuss in part (c) be different than your answer in part (b)?  
(5 marks)
- e) Should all the projects have same level of risk, does selecting those projects will change the company overall risk. Discuss.  
(5 marks)

**(Total: 25 marks)**

### **QUESTION 3**

- a) You have been appointed as a Chief Transformation Officer of Censof Holdings Berhad and the management would like to enhance the overall performances of the company through a merger activity. Briefly discuss **FOUR** (4) types of merger and **FOUR** (4) benefits of merger  
(15 marks)
- b) There are unique factors in the international setting that tend to complicate the financial operations of multinational companies (MNCs). Discuss the influence of international factors on MNCs' operations.  
(10 marks)

**(Total: 25 marks)**

### **QUESTION 4**

- a) Discuss **FIVE** (5) characteristics of options and discuss the role of options in hedging activities by company.  
(10 marks)
- b) Describe **TWO** (2) characteristics of stock purchase warrants. Explain the implied price of an attached warrant and the values of warrants.  
(15 marks)

**(Total: 25 marks)**

**End of Paper**